Fixed assets of the Proprietary Fund have been capitalized and depreciated as required by generally accepted accounting principles.

Long-term Debt - Revenue bonds are repaid by the Enterprise Funds. Special Assessment bonds are repaid by the Agency Funds and the Redevelopment Agency bonds are repaid by the Capital Projects Fund.

Accumulated Unpaid Vacation and Sick Pay - Accumulated unpaid vacation is accrued when incurred in the Proprietary Fund (using the accrual basis of accounting). In 1983 the City adopted NCGA Statement 4, "Accounting and Financial Reporting for Claims, Judgments and Compensated Absences", accordingly, the current liability for unpaid vacation in Governmental funds is recorded within the funds and the long-term liability is recorded within the general long-term debt account group. Sick pay does not accumulate or vest.

Property Taxes - Property taxes are levied by San Benito County on January 1 and are payable in two installments on April 10 and December 10. San Benito County bills and collects the property taxes and allocates a portion to the City. Property tax revenues are recognized when levied to the extent they result in current receivables.

Inventory - The general fund inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Totals "(Memorandum Only)" Information - Columns on the accompanying combined financial statements captioned "Totals (Memorandum Only)" do not present consolidated financial information. They are not necessary for fair presentation of the combined financial statements, but are presented as additional analytical data.

Annual budgets are adopted on a basis of accounting consistent with generally accepted accounting principles. The City prefers to adjust its original budget during the year, so that the effectiveness of individual departments in meeting budget objectives can be evaluated, and the adequacy of the budget itself can be judged. Expenditures in excess of budgeted amounts are allowed by law but must be approved individually by the City Council.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of the budgetary process. There were no encumbrances outstanding at year-end.

Estimates - In accordance with generally accepted accounting principles, management has made estimates and assumptions that affect certain amounts and disclosures which could differ from actual results.

Cash and Investments - The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash" and "Investments" under each fund's caption. Except for council related transactions, the City conducts all its banking and investment transactions with depository banks and savings institutions.

Deposits – Cash balances held in banks are qualified as "public funds". These funds must be collateralized by the Depository at a rate of 110%. The Depository agent must file with the Administrator of the Local Agency Security of the State of California an agreement to comply in all aspects with the provisions of Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government code.

The cash in the Local Agency Investment Fund is cash on deposit with the State Treasurer's Office. The state pools these funds with those of other local agencies in the state and invests the cash prescribed by the California Government Code. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment gains/losses are shared proportionately by all funds in the pool. Funds are accessible and transferable to the District's bank accounts with twenty-four (24) hour notice. The depository has a cap on the investment amount of $20 million. The Local Agency Investment Fund has a very diversified and regulated investment portfolio; the fund is not insured by either the State of California or the Federal Government.

Deposits, categorized by level of risk, are:

	Category			Carrying
Description	1	2	3	Amount
Checking & Savings	$6,842,039			$6,842,039
Treasury Notes	34,891,063			34,891,063
Letter of Credit	126,650			126,650
	$41,859,752			$41,859,752

In addition to the above, the City and Redevelopment Agency have $38,878,384 in the State of California Local Agency Investment Fund, which is not categorized.

Investments - For fiscal year 2002 the City invested only in insured Certificates of Deposits, Federal Agency Instruments, and the State of California Local Agency Investment fund. The LAIF is duly chartered and administered by the State of California and the portfolio normally consists of U.S. T-Bills, T-Notes, collateralized certificates of deposit, and repurchase agreements. The City records all interest revenue earned from investment activities in the respective funds.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the City's name.

Investment activities are conducted through the depository bank and the City's financial advisor. During 2002 the City did invest through security primary dealers. The City and Redevelopment Agency have determined, under the provisions of GASB-31 (Investment, Accounting, Reporting and Disclosure Requirements), that the investments shall be reported in the accompanying general purpose financial statements at fair value.

Investments, categorized by level of risk, are:

Description	Category 1	Category 2	Category 3	Carrying Amount
Checking & Savings	$6,842,039			$6,842,039
Treasury Notes	34,891,063			34,891,063
Letter of Credit	126,650			126,650
	$41,859,752			$41,859,752

2. LONG-TERM DEBT

The following is a summary of changes of bonds and certificates of participation of the City and Redevelopment Agency for the year ended June 30, 2002:

	Balance July 1, 2001	Addition	Reduction	Balance June 30, 2002
Certificates of Participation:				
Revenue Bonds	$15,170,000	$	$ 345,000	$ 14,825,000
Redevelopment Agency				
Tax Allocation Bonds	15,030,000		1,230,000	13,800,000
Compensated Absences	66,667	3,344		70,011
LTD: General Fund from RDA	1,354,537	39,002		1,393,539
Total	$31,621,204	$ 42,346	$ 1,575,000	$ 30,088,550

The City has adopted the policy of acquiring certain fixed assets through the use of lease purchase agreements. For the lease purchases backed by the full faith and credit of the Redevelopment Agency, the payments are accounted for in the Capital Projects Fund (Redevelopment Agency Tax Allocation Bonds).

The City has recorded deferred revenue in the General Fund to represent the amount due the General Fund by the Redevelopment Agency Fund for overhead expenses paid by the General Fund on behalf of the Redevelopment Agency Fund over the period from 1984 through 1993 (including interest). The General Long Term Debt Account Group has recorded the liability as of June 30, 2002 as $1,393,539.

Defeased Debt - On October 1, 1993, the Hollister Joint Powers Financing Authority issued Revenue Bonds (Refunding and Sewer System Improvement Project-Series 1993).

The Authority is a joint exercise of powers authority duly organized and operating pursuant to Article I of Chapter 5 of Division 7 of Title I of the Government Code of the State (the "Joint Powers Act") and pursuant to a Joint Exercise of Powers Agreement dated as of December 1, 1989, by and between the City and the Redevelopment Agency of the City of Hollister.

The Series 1993 Bonds are being issued by the Authority for the purposes of providing funds to finance (i) improvements to the City's sewer system; (ii) the refunding of the City's 1986 Certificates of Participation which were outstanding in the aggregate principal amount of $7,450,000; (iii) the refunding of the City's Sewer Revenue Bonds of 1977 which were outstanding in the aggregate principal amount of $145,000; (iv) the funding of a debt service reserve fund for the Series 1993 Bonds and; (v) the payment of costs of issuance of the Series 1993 Bonds.

The advance refunding of the 1986 Certificates of Participation and the 1977 Sewer Revenue Bonds met the requirements of an in-substance debt defeasance and the 1986 Certificates of Participation and 1977 Sewer Revenue Bonds were removed from the City's General Long Term Debt Account Group and Proprietary Fund Balance Sheet respectively.

As a result of the advance refunding, the City reduced its total debt service requirements, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $630,739.

The annual Series 1993 Installment Payment schedule for each fiscal year the Series 1993 Bonds are scheduled to be outstanding is as follows:

Year Ending June 30	Principal Component
2003	$345,000
2004	365,000
2005	385,000

2006	405,000
2007	435,000
Thereafter	12,890,000
Total	$14,825,000

RDA Defeased Debt- on May 27, 1997 the Redevelopment Agency issued Refunding Tax Allocation Bonds, Series 1997.

The Refunding Tax Allocation Bonds in the amount of $9,025,000 were issued with an average interest rate of 5.38% to advance refund $9,720,000 outstanding 1988 and 1989 series bonds with an average interest rate of 7.66% and 7.55% respectively. The net proceeds of $2.08 (after payment of $1,798,591.50 in underwriting fees, insurance, and other issuance costs) plus an additional $8,967,140 of 1988 and 1989 sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 and 1989 Series bonds. As a result, the 1988 and 1989 Series bonds are considered to be defeased and the liability for those bonds has been removed from the general long term debt account group.

The Redevelopment Agency advance refunded the 1988 and 1989 Series bonds to reduce its total debt service payments over the next fifteen years by almost $1,736,455 and to obtain an economic gain (difference between the present values of the debt service payments on the old and the new debt) of $1,254,293.

The annual Redevelopment Agency Tax Allocation Bond Installment schedule for each fiscal year the Tax Allocation Bonds are scheduled to be outstanding is as follows:

Year Ending June 30	Principal Component
2003	$1,315,000
2004	1,390,000
2005	1,470,000
2006	1,560,000
2007	1,650,000
Thereafter	6,415,000
Total	$13,800,000

Special Assessment Debt - Special assessment bonds and related interest costs are payable solely from assessments and interest collected from the property owners benefited by the respective improvements. The City has no liability for payment of the bonds should the assessments be insufficient to cover bond principal and interest; however, due to the City's oversight relationship with the Special Assessment Districts, they are included in the City's reporting entity as Special Assessment Debt in the Agency Funds.

3. FIXED ASSETS

Fixed assets are summarized as follows:

General Fixed Assets:	June 30, 2002
Buildings	$12,031,506
Improvements	2,644,741
Equipment	3,472,242
Total	$18,148,489

Enterprise Fund:	
Land	$8,894,210
Buildings	1,291,399
Improvements	8,897,243
Equipment	5,792,570
Total	24,875,422
Less: Accumulated Depreciation	(8,308,804)
Net	$16,566,618

4. INTER-FUND LOANS

Inter-fund loans occurred between various funds of the City of Hollister during 2002. At June 30, 2002, inter-fund loans consist of the following:

Capital Projects Funds loan payable RDA to RDA Housing Element	$100,000
General Fund and Agency Fund payable to Special Revenue Fund	60,629
Enterprise Fund loan payable to the Special Revenue Fund	1,384,584
Total	$1,545,213

5. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

6. RETIREMENT PLAN

Plan Description. The City contributes to the California Public Employees Retirement System (PERS); an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of the PERS annual financial report may be obtained from their Executive Office-400 P Street-Sacramento, CA 95814.

The City's three defined benefit pension plans (Miscellaneous Plan, Safety Police Plan and Safety Fire Plan) with CalPERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. All permanent (full-time and part-time) and "as-needed" hourly City employees are required to participate in CalPERS.

Plan Benefits. Benefits for employees in the Miscellaneous Plan and Safety Plans vest after five years of CalPERS credited service. The amount of retirement benefits under the plans are based on the retiree's age, years of CalPERS credited service, and a benefit factor of 2% at 55 for Miscellaneous Plan members and 2% at 50 for Safety Plan members.

- Miscellaneous Plan

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 or over with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (2% at 55), years of service, and final compensation (monthly average of members highest 36 consecutive month's full-time equivalent monthly pay). The service retirement benefit for this group is not capped.

- Safety Police Plan

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 or over with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor 2% at 50, years of service, and final compensation. For Police Safety employees the final compensation is the monthly average of the member's highest consecutive month's full-time equivalent monthly pay. The service retirement benefit for the Safety Plan group is capped at 75% of final compensation.

- Safety Fire Plan

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 or over with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor 2% at 50, years of service, and final compensation. For Fire Safety employees the final compensation is the monthly average of the member's highest consecutive month's full-time equivalent monthly pay. The service retirement benefit for the Safety Plan group is capped at 75% of final compensation.

Funding Policy: All employee contributions (seven percent miscellaneous and nine percent for police and safety) are paid by the City. The City is required to contribute at an actuarially determined rate; the fiscal year 2003-04 rate is 3.611% of annual covered payroll for the Miscellaneous Plan; 12.343% for the Police Plan; and 11.744% for the Fire Plan. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost: For the fiscal year ended June 30, 2002, the City's annual pension cost of $248,835 for the Miscellaneous and Safety and pension plans, was equal to the City's actuarially required contribution and the actual contribution made by the City. The required contribution for fiscal year 2001/2002 was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The Entry Age Normal Actuarial Cost Method is a projected benefit cost method which takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount which would fund the projected benefit if it were paid annually from the date of employment until retirement. CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method in which the City's total normal cost is expressed as a level percent of payroll. CalPERS also uses the level percentage of projected payroll method to amortize any unfunded actuarial liabilities (or excess assets) on a closed basis over the remaining amortization period. Beginning on July 1, 1997, all changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology will be amortized separately over a twenty-year period.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement include the following:

- A rate of return on the investment of present and future assets of 8.25% per year compounded annually.
- Projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for both Miscellaneous and Safety Plan members.
- Overall payroll growth of 3.75% compounded annually.
- Inflation factor of 3.50% compounded annually.
- Net assets available for benefits at actuarial "smoothed market" value.

There have been no changes in methods since the prior year's actuarial valuation. However, it should be noted that the CALPERS Board adopted a new actuarial asset valuation method beginning with the 1997 valuation.

Three-Year Trend Information for all Plans
($ Amounts in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6\30\99	$198	100%	$0
6\30\00	$199	100%	0
6\30\01	$202	100%	0

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Miscellaneous Plan
($ Amounts in Thousands)

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Status	Annual Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
6\30\99	$14,619	$11,067	$(3,552)	132.1%	$3,497	(101.6)%
6\30\00	$16,338	$12,532	$(3,806)	130.4%	$4,016	(94.8)%
6\30\01	$16,993	$14,319	$(2,675)	118.7%	$4,595	(58.2)%

Schedule of Funding Progress for Police Safety Plan
($ Amounts in Thousands)

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Status	Annual Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
6\30\99	$7,160	$6,754	$(406)	106.0%	$1,294	(31.4)%
6\30\00	$8,149	$7,618	$(531)	107.0%	$1,624	(32.7)%
6\30\01	$8,555	$8,515	$(40)	100.5%	$2,008	(2.0)%

Schedule of Funding Progress for Fire Safety Plan
($ Amounts in Thousands)

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Status	Annual Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
6\30\99	$2,540	$2,585	$45	98.3%	$779	5.8%
6\30\00	$3,006	$2,847	$(159)	105.6%	$940	(16.9)%
6\30\01	$3,307	$3,251	$(57)	101.7%	$1,046	(5.4)%

7. OTHER POST-EMPLOYMENT BENEFITS

In addition to pension benefits described in Note 6, the City provides post-employment benefit options for health care, life insurance, dental insurance, and disability income to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with City ordinances, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, disability due to line of duty, and whether the employee has vested in the respective retirement plan. The City funds the benefits on a pay-as-you-go basis. Eligible employees are required to pay set premiums for a portion of the cost with the City subsidizing the remaining costs. During 2002, expenses (net of participant contributions) of $6,190 were recognized for post-employment benefits. Expenses for post-retirement health care benefits are recognized as eligible employee claims are paid and include a provision for incurred but not reported claims.

8. SELF INSURANCE

The City has a program of self-insurance for the reimbursement method of State unemployment compensation to former employees and for medical-dental insurance. In addition, the City is a member of a Joint Powers Agreement for general liability insurance and workman's compensation. The City has a proportionate equity in the Joint Powers Agreement reserve, which is reflected in the financial statements of the Joint Powers Agreement.

9. SPECIAL ASSESSMENT DISTRICTS

Bonds issued for improvements in special assessment districts are liabilities of the property owners and are secured by liens against the assessed property. The City acts as an agent for collection of principal and interest payments by property owners and remittance of such monies